



WRITTEN STATEMENT OF

Cameron B. Waite, Executive Vice President, Penn Treaty American Corporation

Before the Subcommittee on Oversight and Investigations

Committee on Energy and Commerce

U.S. House of Representatives

Hearing on Long-Term Care Insurance: Are Consumers Protected for the Long Term?

July 24, 2008

Summary Statement of Cameron B. Waite, Penn Treaty American Corporation

Penn Treaty is an innovator and leading provider of long-term care insurance in the United States for more than 35 years, serving approximately 150,000 policyholders. Penn Treaty specializes in long-term care insurance.

Penn Treaty has a strong claims paying record:

- In 2007, paid \$194 million in claims and over its three decades paid \$2 billion in claims.
- More than 95% paid within 15 days of receipt of paperwork and nearly 100 percent paid within 30 days.
- Only approximately 5% of claims have been denied, for any reason, in the past three years.
- Complaints received from policyholders have declined over 60% over the past several years, while the industry average has been steadily increasing.
- Less than 2/10 of one percent of all claims have gone to litigation.
- Penn Treaty has taken steps such that our outstanding litigation is at an all time low.

Penn Treaty is unique among most long-term care insurance (“LTCi”) providers:

- Penn Treaty has older LTCi policies that are becoming eligible for claims in large numbers.
- Newer providers have less mature policies, so their claims are far fewer, particularly as a percentage of total policies. Therefore, complaints per policyholder would naturally be higher than many newer providers.
- The average issue age for comprehensive LTCi policies industry-wide is 60, while Penn Treaty’s average policy issue age (in 2006) was 66.

Penn Treaty LTCi policies and claims procedures are fair and expedient:

- When it comes to eligibility decisions, Penn Treaty strives to be the fastest in the industry, paying nearly 100% of eligible claims within 30 days.

Penn Treaty has taken steps in response to industry issues, including those raised by the NY Times and those noted by the Subcommittee:

- 1) Adopting the most rigid of state requirements for claim payment timing.
- 2) Implementing a robust audit program for claim payments.
- 3) Automating system improvements to safeguard against errors in payments.
- 4) Substantially improving caliber of claims examiners and training programs.
- 5) Strengthening our overall customer support area to answer policy related questions.

Our policy holders are protected by over \$1 billion in reserves and we have purchased 100% reinsurance for substantially all policies written before 2002, and substantially reinsured all newly issued policies with a global reinsurer.

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Hearing on Long-Term Care Insurance: Are Consumers Protected for the Long Term?

Chairman Stupak, Ranking Member Shimkus, and members of the Subcommittee, my name is Cameron Waite, and I am Executive Vice President of Penn Treaty American Corporation (“Penn Treaty”). I appreciate the opportunity to be here today and I am pleased to submit this statement for the record of this hearing. We believe that the Subcommittee’s inquiry is an important and useful contribution to the broader effort to ensure that America’s consumers understand long-term care insurance as part of their overall financial and health care planning.

We welcome this opportunity to be part of the Subcommittee’s discussion on these issues. As the Subcommittee knows, Penn Treaty voluntarily and completely responded to the Committee’s request for information and documents, working closely with your staff to make certain that everything that was requested was provided and understood. We appreciate the staff’s approach to working with us as they conducted their investigation and hope that the outcome, including through this hearing, advances the understanding of the value of long-term care insurance (“LTCi”).

Penn Treaty American Corporation, through its insurance company subsidiaries, has been a leading provider of long-term care insurance in the United States for more than 35 years. A pioneer in the long-term care insurance industry, Penn Treaty was the first to introduce a nursing home policy in 1972 and today serves approximately 150,000 policyholders.

Listed on the New York Stock Exchange (NYSE:PTA), Penn Treaty and its subsidiary companies are primarily located in Allentown, Pennsylvania. The subsidiaries include Penn Treaty Network America Insurance Company; American Network Insurance Company; and American Independent Network Insurance Company of New York.

The company's new policies are sold nationally in 43 states (excluding Florida, Minnesota, Missouri, New Hampshire, North Carolina, Wisconsin and Vermont) and the District of Columbia through insurance agents and brokers. The company also services, administers and renews policies in all 50 states and the District of Columbia. Penn Treaty provides fast, reliable service, with competitive rates and the broadest spectrum of underwriting classes provided in the long-term care business.

Penn Treaty is dedicated to improving the quality of life of the nation's seniors. The company's goals are to help:

- Provide a financial safety net for elderly Americans that protects their assets and income in the event that they need long-term care.
- Preserve seniors' choice in long-term care providers.

Penn Treaty offers multiple products to give consumers a range of long-term care insurance selections to meet their needs – including a number of product options for both healthier individuals and for applicants with identified and managed health conditions, which are not available anywhere else in the industry.

Penn Treaty has a strong claims paying record:

- In 2007, Penn Treaty paid approximately \$194 million in claims, a level that increased steadily every year from 2002 through 2007.
- Over its three decades of service, Penn Treaty has paid approximately \$2 billion in claims.

- Penn Treaty pays claims and pays them fast. Following initial claim approval, more than 95% are paid within 15 days of receipt of paperwork and nearly 100% are paid within 30 days.
- Only approximately 5% of claims have been denied in the past three years. A claim could be denied for a variety of reasons, such as the following:
 - The elimination period of the policy has not been met.
 - The LTC service is not covered by the policy.
 - The provider or facility is not qualified under the policy.
 - The benefit triggers have not yet been met.

Penn Treaty policyholders are satisfied with their long-term care insurance:

- The number of complaints received by Penn Treaty has been declining for the past several years. Between 2004 and 2007 the total number of complaints went from 866 to 410, a 53% decrease, or more than 450 complaints. Claim-related complaints also dropped dramatically from 507 in 2004 to 196 in 2007, a 61% decrease. This contrasts with the overall industry experience, where there has been a significant increase in the number of complaints made by policyholders in recent years.
- Less than two tenths of one percent of all claims have gone to litigation due to proper claim adjudication and a robust consumer appeals process.

Penn Treaty is unique among most LTCi providers:

- Since Penn Treaty has been in the LTCi business longer than other insurance providers, it has older LTCi policies. These policies are becoming eligible for claims in large numbers, as illustrated by data from the last five years:
 - 2002: Approximately \$156 million claims paid
 - 2003: Approximately \$170 million claims paid
 - 2004: Approximately \$179 million claims paid
 - 2005: Approximately \$180 million claims paid
 - 2006: Approximately \$186 million claims paid
- Newer insurance providers have less mature policies, so their claims are far fewer, particularly as a percentage of total policies.
- While the average issue age for comprehensive LTCi policies industry-wide is 60, Penn Treaty's average policy issue age (in 2006) was 66. In addition, the average age of a Penn Treaty policyholder was 75, and the average age of a Penn Treaty claimant was 85.

Average age of Penn Treaty policyholders	2005	2006
At policy issue	66	66
All policyholders	74	75
When claims are made	83	84

- Accordingly, it would be expected that the percentage of complaints per policyholder are higher for companies like Penn Treaty who have a mature policyholder base more likely to be on claim.

Penn Treaty LTCi policies and claims procedures are fair and expedient:

- Penn Treaty understands the transition into long-term care can be difficult for policyholders and their families. That's why the customer service staff and case managers are trained to guide every policyholder through the claims process in the most sensitive and expedient way.
- When policyholders call, the customer service staff works with them to gather the necessary information to address the three areas of claim eligibility and help them understand the options they have under their policies.
- Penn Treaty claim examiners work hard to process claims by routinely making phone calls to ensure that policyholders have received documents and help them or their representatives understand the claims process.
- Penn Treaty has registered nurses on staff called case managers. They work directly with physicians, providers and the policyholder's family to develop an appropriate plan of care that will best meet the needs of each individual.
- When it comes to eligibility decisions, Penn Treaty strives to be the fastest in the industry. Once information needed to make an eligibility decision is received, over 95 % of claims are paid within 15 days and nearly 100% are paid within 30 days.
- If a claim is denied, the reason for the denial is provided to the policyholder in writing. Policyholders are also advised of their rights to appeal a denial.
- Penn Treaty's internal appeal process includes three levels of review: (1) supervisory review, (2) managerial review, and (3) review by an interdisciplinary team that includes the executive vice president in charge of claims and a legal department representative. It may also include the company's consulting medical director.

As a pioneer in the long-term care insurance industry, Penn Treaty has noted emerging trends, oftentimes before the rest of the industry, that have led to a better understanding of the industry as it has evolved. One such trend, that has effected claims experience, was the advent of Assisted Living Facilities. Penn Treaty has included such facilities under the benefits of existing policies even though Assisted Living Facilities did not exist and were not contemplated at the time that the policies were issued.

In addition, one of the challenges we have faced is the fact that many of our older policies had ultimate claim expectations that industry experts have since concluded are no longer accurate, because they were based on incorrect lapse, mortality, and morbidity rates. Based on our understanding and examination of our claims history with our older policies, our claims expectations have now evolved such that we have a better understanding of our future claims experience. As a result, and in order to ensure that all policyholders are protected in the future, we have had to in some instances increase premiums. We have also endeavored to offer a variety of options to policyholders in order to reduce rate increases in exchange for modifications in benefits. Our goal is to allow policyholders to maintain their policy to protect their future long-term care insurance needs.

We believe that we have handled these challenges well and that our policyholders and stockholders have both been well served. However, we acknowledge that the process has involved more disputes, including litigation, than we or our policyholders would have liked and more financial stress that we or our stockholders would have liked. I am happy to report that as of today, we are on the right track both in terms of resolving issues that have arisen over claims by policyholders and in terms of financial stability for the company.

Before getting into some of the details, however, I would like to make two very important points – First, throughout our history, even during the most difficult times, the company has paid

its eligible claims, and disputes with policyholders have always been a small fraction of claims made on their policies. Second, the company has ensured that policyholders are protected in the future through adequate reserve funding and by having a global reinsurer backing its policies. So, our policyholders have always been protected, and substantially all of them have been very happy with their claims experiences.

With regard to disputes over claims made by policyholders, while there have always been some, they have always been small in comparison with the number of claims overall. Based on the materials that we have submitted, your staff has analyzed our litigation experience in the period 2004 through the middle of 2007. During that time, we had 41 pending litigations – less than 0.2% of the nearly 25,000 claims that were made during that period. Of this small number of cases, most were mutually resolved for relatively small sums. We are able to compete in an industry lead by mega-insurers due to our reputation for prompt claim payment and exceptional service. We find no value, financial or otherwise, in the illegitimate denial of any claim.

As the percentages noted demonstrate, these cases amounted to a small fraction of the claims made during this period. However, we strive to meet a goal of having little or no litigation from our policyholders. Accordingly, we have worked hard to resolve the cases we had in that period, to clarify the terms in particular types of policies that seemed to have led to more disputes, and to improve our claims handling process so that fewer claims became disputes. As a result, today, our outstanding litigation is at an all time low. Further, as noted above, we have reduced complaints by over 60%, which means we expect the very low litigation level to remain for the foreseeable future.

As a measure of our progress, we are pleased to report that recent market reviews by state insurance regulators have generally noted positive trends in our claims handling and payment procedures. In response to industry issues, including those concerns raised by the NY Times and

those noted by the Subcommittee, we have addressed all identified issues, as the company continues to implement and improve best practices in servicing its policyholder base. Steps we have taken in this regard include:

- 1) Adopting the most rigid of state requirements for claim payment timing following the receipt of requisite information to process the claim. We have used 15 days as the benchmark for measuring all claim processing. Under this benchmark, we are currently paying 98% of all nationwide claims within 15 days and 99+% within 30 days. Only about one half of all states even have a requirement.
- 2) Implementing a robust audit program for claim payments, which generates secondary review of over 10% of all transactions. The audit program provides substantial opportunity for supervisors to work with examiners to improve skills and ensure consistency of approach.
- 3) Automating system improvements to safeguard against errors in payments, including development of better management reporting.
- 4) Substantially improving the caliber of claims examiners and training programs for all staff levels. This has improved the efficacy of management and has ensured consistency of service and proper review of all claims processed.

We also have taken substantial steps over the last few years to ensure that our policyholders receive benefits when it comes time to make claims on their policies. The company's policyholders are protected by over \$1 billion in reserves. In addition, the company has purchased 100% reinsurance for substantially all policies written before 2002, and substantially reinsures all newly issued policies with a global reinsurer.

Looking to the future, the need for long term care insurance is more and more evident every day. Long term care insurance is a critical element in our growing senior population's financial planning. Our 250 employees are dedicated and passionate about the value they bring

to our seniors. We are confident that Penn Treaty will continue to be a key player in this business. We have been an innovator and leader in the industry since its inception and, along with our industry colleagues, have worked through the inevitable issues noted as the industry expanded. Now, as we have throughout our history, Penn Treaty is committed to offering quality products to meet the needs of America's consumers in this field.

Again, we appreciate the opportunity to appear before the Subcommittee and would be happy to respond to any questions.